

GENERAL INSTRUCTIONS

For tax years beginning after December 31, 1989, there shall be allowed to each taxpayer subject to the tax imposed by Chapter 235, Hawaii Revised Statutes, a credit related to the employment of vocational rehabilitation referrals which shall be deductible from the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

NOTE: For taxable years beginning after December 31, 1991, Act 105, Session Laws of Hawaii 1992, allows S corporations qualifying for the Credit for Employment of Vocational Rehabilitation Referrals to pass the benefits of this credit through to its shareholders.

PURPOSE OF FORM

Use Form N-884 if you hire new employees who are vocational rehabilitation referrals and elect to claim a credit for the wages paid or accrued for them during their first year of employment.

The amount of the tax credit for the taxable year shall be equal to 20% of the qualified first-year wages paid to the vocational rehabilitation referrals for that year. The amount of the qualified first-year wages which may be taken into account with respect to any individual shall not exceed \$6,000.

This form is also used to report any unused credits carried over from prior years.

FOR PURPOSES OF THIS CREDIT

"Hiring date" means, the day the vocational rehabilitation referral is hired by the employer.

"Qualified first-year wages" means, with respect to any vocational rehabilitation referral, qualified wages attributable to service rendered during the one-year period beginning with the day the individual begins work for the employer.

"Qualified wages" means the wages (as defined under the Federal Unemployment Tax Act (FUTA)) paid or incurred by the employer during the taxable year to an individual who is a vocational rehabilitation referral and more than one-half of the wages paid or incurred for such an individual is for services performed in a trade or business of the employer.

"Vocational rehabilitation referral" means any individual who is certified by the Department of Human Services Vocational Rehabilitation and Services for the Blind Division (DHS) in consultation with the Hawaii State Employment Service of the Department of Labor and Industrial Relations as:

- 1) having a physical or mental disability which, for such individual, constitutes or results in a substantial handicap to employment; and
- 2) having been referred to the employer upon completion of (or while receiving) rehabilitative services.

The following provisions are applicable when claiming this credit:

- 1) The employee must be certified by DHS as being a vocational rehabilitation referral. The employer must receive or request, in writing, a certification from DHS by the date the employee begins work (or within 5 days if the employer has received a written preliminary determination that the employee is a vocational rehabilitation referral). In any request for a certification, the employer shall certify that a good faith effort was made to determine that the employee is a vocational rehabilitation referral.
- 2) If certification of a vocational rehabilitation referral is revoked by DHS, any wages paid by the employer to such employee after the date on which notice of revocation is received by the employer shall not be treated as qualified wages.
- 3) A credit may not be claimed on any wages paid to a vocational rehabilitation referral that were repaid by a federally funded on-the-job training program, or for which work supplemental payments were received under the Social Security Act.
- 4) A credit may not be claimed on any wages paid to workers who replaced vocational rehabilitation referrals during a strike or walkout.
- 5) A credit may not be claimed on any wages paid to a vocational rehabilitation referral:
 - a) who is a relative or a dependent of the employer, or, if the employer is a corporation, of an individual who owns, directly or indirectly, more than 50% in value of the outstanding stock of the corporation, or, if the

employer is an estate or trust, of a grantor, beneficiary, or fiduciary of the estate or trust; or

- b) who, if the employer is an estate or trust, is a grantor, beneficiary, or fiduciary of the estate or trust; or
- c) if, prior to the hiring date of such individual, such individual had been employed by the employer at any time during which he was not a vocational rehabilitation referral; or
- d) unless such individual is employed by the employer for at least 90 days or has completed at least 120 hours of service for the employer.

6) The amount of credit with respect to wages paid to a vocational rehabilitation referral by a successor employer shall be made in the same manner as if such wages were paid by the predecessor employer.

7) No credit will be allowed with respect to any wages paid by an employer to a vocational rehabilitation referral for services performed by such employee for another person unless the amount reasonably expected to be received by the employer for such services from such other person exceeds the wages paid by the employer to such employee for such services.

The credit shall be claimed against the net income tax liability for the taxable year. If this credit exceeds the taxpayer's income tax liability, it may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted.

NOTE: No deduction shall be allowed for that portion of the wages or salaries paid or incurred for the taxable year that is equal to the current year's portion of the credit claimed. See the instructions for your tax return so you report this adjustment properly.

TIME FOR FILING

All claims for this credit, including any amended claims, must be filed on or before the end of the twelfth month following the close of the taxable year for which the credit may be claimed. Failure to comply with the foregoing provision shall constitute a waiver of the right to claim this credit.

SPECIFIC INSTRUCTIONS

Line 1. — Enter employees' names, starting dates, social security numbers, and wages paid during the taxable year. The qualified first-year wages may not exceed \$6,000 per employee.

Line 2. — Add the total qualified first-year wages paid in the current year.

Line 3. — Compute the credit applicable to the current year by multiplying the amount on line 2 by 20%, and enter the result on line 3.

You must subtract your current year credit on line 3 from the deduction on your tax return for salaries and wages you paid or owe for the current year. This is true even if you cannot take the full credit this year and must carry part of it forward. See the instructions for your tax return so you report this adjustment properly.

Line 4. — Enter the amount of credit that was allocated to you as a partner, beneficiary, or patron of a cooperative.

Line 5. — Enter the amount of unused jobs credit carried over from prior years.

Line 6. — Enter the total credit claimed for the year on this line and on the applicable line of your tax return.

Partnerships and S corporations: Prorate the credit on line 6 among the partners or shareholders. Attach Form N-884 to the return of the partnership or S corporation and on Schedule K-1 (Form N-20) or Schedule K-1 (Form N-35) show the credit for each partner or shareholder, respectively.

Estates and trusts: The credit on line 6 is allocated between the estate or trust and the beneficiaries in proportion to the income allocable to each. On the dotted line to the left of the amount on line 6, the estate or trust should enter its part of the total credit. Label it "N-40 PORTION" and enter this amount on the applicable line of the return of the estate or trust. Attach Form N-884 to the return of the estate or trust and on Schedule K-1 (Form N-40) show the credit for each beneficiary.

Cooperatives: Most tax-exempt organizations cannot take the credit; but a cooperative may claim the credit to the extent it has an income tax liability. Any excess is shared among its patrons. A statement should be prepared by the cooperative informing each patron of their share of the credit.